

CHEROKEE COUNTY

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2006

CHEROKEE COUNTY  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
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JUNE 30, 2006

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## CHEROKEE COUNTY

### OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edwin "Bud" Clow	Board of Supervisors	Jan. 2007
Jeffrey Simonsen	Board of Supervisors	Jan. 2007
Terry Graybill	Board of Supervisors	Jan. 2009
Dean Schmidt	Board of Supervisors	Jan. 2009
Ronald Wetherell	Board of Supervisors	Jan. 2009
Bonnie Ebel	County Auditor	Jan. 2009
Lynde Lundquist	County Treasurer	Jan. 2007
Dawn Jones Coombs	County Recorder	Jan. 2007
Dave Scott	County Sheriff	Jan. 2009
Mark Cozine	County Attorney	Jan. 2007
Robert S. Hart	County Assessor	Jan. 2010

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

To the Officials of Cherokee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Cherokee County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Cherokee County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2006, on our consideration of Cherokee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cherokee County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungelman, Tuttle & Co.*

October 19, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Cherokee County provides this Management Discussion and Analysis of its financial statements. This report contains an overview and analysis of the financial activities for the fiscal year ended June 30, 2006. The following information should be considered in relation to the County's financial statements included in this report.

This is the third year that Cherokee County has been required to report all activities on a full accrual basis, as required by the reporting standards of GASB 34. The following comprehensive comparison to fiscal year 2005 makes it more meaningful for the public to understand the County's financial position and results of operations.

### **2006 FINANCIAL HIGHLIGHTS**

- Cherokee County governmental fund revenues increased approximately \$834,884 from fiscal year 2005 to fiscal year 2006. Property taxes and other county tax increased approximately \$327,671.
- Cherokee County's governmental fund expenditures increased approximately \$165,795 from fiscal year 2005 to fiscal year 2006. Mental health expenditures increased by approximately \$168,861 and capital projects expenditures decreased approximately \$341,915.
- Cherokee County's net assets increased 15.7%, or approximately \$3,138,661, from June 30, 2005 to June 30, 2006.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Cherokee County as a whole, and present an overall view of the County's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Cherokee County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Cherokee County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the County.

## **REPORTING THE COUNTY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

Accounting methods similar to those used in private-sector businesses are used in preparing the County-wide financial statements. The information contained in these reports helps the public to understand if Cherokee County's financial position is better or worse after the fiscal year has ended.

The Statement of Net Assets includes all of Cherokee County's assets and liabilities with "net assets" being reported as the difference between assets and liabilities. Over time, increases or decreases in the County's net assets will indicate if the financial position of the county is improving or deteriorating.

The Statement of Activities includes all of the current year's revenues and expenses. All changes in net assets are reported as soon as the change occurs, regardless of when the cash was received or paid. Therefore, revenues and expenditures for some items will be reported in this statement and their resulting cash flows will be reported in future fiscal reports.

Cherokee County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, and non-program activities. Property tax and state and federal grants finance most of these activities.

### *Fund Financial Statements*

The Fund Financial Statements provide more detailed data about Cherokee County's funds. Funds are used to keep track of sources of funding and spending on particular programs. Most "major" funds are required by state law while the County establishes other funds to control and manage money for specific purposes or to show that it is properly using certain revenues such as federal grants.

Cherokee County has three kinds of funds:

1) Governmental Funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services, and Secondary Roads, and 3) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Cherokee County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

2) Proprietary funds account for the County's Internal Service, Employee Group Health Insurance Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support Cherokee County's own programs.



## REPORTING THE COUNTY'S FINANCIAL ACTIVITIES – (Continued)

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Cherokee County's combined net assets were \$23,127,785 for fiscal year 2006. This reflects a \$3,138,661 (15.7%) increase over fiscal year 2005 net assets of \$19,989,124. This increase can be substantially attributed to roadway construction. The analysis that follows focuses on the changes in the net assets for governmental activities.

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#### **Net Assets of Cherokee County's Governmental Activities**

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	<u>2006</u>	<u>June 30,</u> <u>2005</u>
Current and other assets	\$ 9,767,100	\$ 9,428,769
Capital assets	<u>17,305,827</u>	<u>14,306,278</u>
Total assets	<u>27,072,927</u>	<u>23,735,047</u>
Other liabilities	<u>3,945,142</u>	<u>3,745,923</u>
Total liabilities	<u>3,945,142</u>	<u>3,745,923</u>
Net assets		
Invested in capital assets, net of related debt	17,305,827	14,306,278
Restricted	4,021,042	3,906,730
Unrestricted	<u>1,800,916</u>	<u>1,776,116</u>
Total net assets	<u>\$ 23,127,785</u>	<u>\$ 19,989,124</u>

Net assets of Cherokee County's governmental activities increased by \$3,138,661 compared to fiscal year 2005. The largest portion of Cherokee County's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, are reported at approximately \$1,800,916 as of June 30, 2006.

## Changes in Net Assets of Cherokee County's Governmental Activities

	Year Ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 1,332,610	\$ 882,950
Operating grants, contributions, and restricted interest	4,361,747	3,744,911
Capital grants, contributions, and restricted interest	2,332,064	1,570,891
General revenues:		
Property tax	3,538,501	3,210,286
Penalty and interest on property tax	26,997	28,534
State tax credits	191,711	192,619
Tax increment financing	125,361	99,729
Grants and contributions not restricted to specific purpose	62,100	56,786
Unrestricted investment earnings	174,268	116,519
Other general revenues	8,162	31,015
Total revenues	<u>12,153,521</u>	<u>9,934,240</u>
Program expenses:		
Public safety and legal services	1,439,214	1,453,842
Physical health and social services	716,618	706,160
Mental health	1,230,777	1,059,954
County environment and education	458,859	464,701
Roads and transportation	3,389,616	3,069,182
Governmental services to residents	304,752	277,853
Administration	1,475,024	1,024,144
Total expenses	<u>9,014,860</u>	<u>8,055,836</u>
Increase in net assets	3,138,661	1,878,404
Net assets beginning of year	<u>19,989,124</u>	<u>18,110,720</u>
Net assets end of year	<u>\$ 23,127,785</u>	<u>\$ 19,989,124</u>

Cherokee County's property tax revenue increased by \$328,215 due to a 3.79% increase in property valuation. The County increased levy rates in both the General and Rural Funds while slightly decreasing the levy rate in the Mental Health Fund.

### INDIVIDUAL MAJOR FUND ANALYSIS

As Cherokee County completed the year, its governmental funds reported a combined fund balance of \$5,830,021, an increase of \$71,843 from last year's \$5,758,178 ending fund balance. The increase in fund balance is primarily attributable to the increase in property valuations. The Cherokee County Board of Supervisors chose to "spend down" the fund balance as a way of reducing the potential increase in property taxes for the citizens of Cherokee County. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures reflect normal increases in expenditures pertaining to labor costs and insurances increases. The ending fund balance showed a decline of \$56,042 from the prior year to \$1,704,580.

## **INDIVIDUAL MAJOR FUND ANALYSIS – (Continued)**

- Cherokee County has continued to look for ways to effectively manage the cost of mental health services. As a calculated risk, the Cherokee County Board of Supervisors along with the Central Point Coordinator, chose to levy at 100% and reduce the ending fund balance to below 25% as a means of qualifying for Allowable Growth dollars as provided by the Department of Human Services. For the year, expenditures totaled approximately \$1,227,280, while revenues generated for this fund in Fiscal Year 2006 were \$1,016,470. The resulting decrease in the Mental Health Fund balance at year end was \$210,810, leaving an ending fund balance of \$29,661.
- Rural Services ending fund balance for fiscal year 2006 was \$282,120, which is a \$18,207 increase from the prior year's balance of \$263,913. This change is a result of Cherokee County's rural valuation increase.
- Secondary Roads ending fund balance increased by \$341,108 for the year ending June 30, 2006. The prior year fund balance was \$3,165,851, and was increased to a \$3,506,959 fund balance after completion of the 2006 year.
- Other Special Revenue Funds, which include County Recorder Records Management, Conservation Land Acquisition Trust, Resource Enhancement and Protection, and the Capital Projects fund, are classified as nonmajor special revenue funds. The combined activities of these funds resulted in a decrease in fund balance of \$20,620. The ending fund balance for 2006 was \$306,701 which is a reduction from the prior year's ending fund balance of \$327,321.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Cherokee County amended its budget once. This amendment was made on May 2, 2006 by the County Board of Supervisors for the following reasons:

- Increased Other County Tax Revenue by \$55,000 for additional Local Option Sales Tax proceeds.
- Increased Intergovernmental Revenues by \$59,500, which included \$26,000 for pass through grants, \$23,000 from Help America Vote Act (HAVA) funds, and \$10,500 for Environmental Health grants.
- Miscellaneous Revenues were increased for Sheriff's Forfeited Property in the amount of \$6,400.
- Operating Transfers In were increased by \$9,900 to account for transfers of unused balances in the General Allocations and Physical Planning funds into the General Fund.
- Expenditures in the Public Safety service area were increased by \$41,271. These included \$5,000 for Clerk of Court law library, \$10,000 for Medical Examiner autopsy fees, \$6,400 in Forfeited Property funds, and \$19,871 in the Sheriff's Department for fuel and prescriptions.
- Additional expenses were amended in Physical Health to authorize \$12,500 in additional Environmental Health spending for grants and animal disposal.
- Mental Health expenses were increased by \$100,000 through this amendment to cover additional State Hospital bills.
- Increased Expenditures in Government Services to Residents by \$10,000 due to election costs.
- Administration was increased by \$151,000 to include the pass through grants previously mentioned totaling \$26,000, along with \$20,000 of General Services utility and capital improvement expenses, \$30,000 in increased Work Comp Insurance, and \$75,000 of additional Local Option Rural Betterment Projects.
- Increased the Operating Transfers Out by \$9,900 to account for transfers of unused balances from the General Allocations and Physical Planning Funds into the General Fund.

## CAPITAL ASSETS

Cherokee County's Capital Assets activity for the year ended June 30, 2006 was as follows:

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### **Capital Assets of Governmental Activities at Year End**

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	<u>2006</u>	<u>June 30,</u> <u>2005</u>
Governmental activities:		
Capital assets not being depreciated:		
Land	\$ 198,517	\$ 180,750
Construction in progress	<u>2,840,293</u>	<u>3,085,089</u>
Total capital assets not being depreciated	<u>3,038,810</u>	<u>3,265,839</u>
Capital assets being depreciated:		
Buildings	3,576,367	3,547,197
Improvements other than buildings	9,750	9,750
Equipment and vehicles	5,187,832	5,007,421
Infrastructure, road network	<u>10,117,300</u>	<u>6,599,495</u>
Total capital assets being depreciated	<u>18,891,249</u>	<u>15,163,863</u>
Less accumulated depreciation for:		
Buildings	1,629,191	1,578,973
Improvements other than buildings	2,621	2,134
Equipment and vehicles	2,274,444	2,230,912
Infrastructure, road network	<u>717,976</u>	<u>311,405</u>
Total accumulated depreciation	<u>4,624,232</u>	<u>4,123,424</u>
Total capital assets being depreciated, net	<u>14,267,017</u>	<u>11,040,439</u>
Governmental activities capital assets, net	<u>\$ 17,305,827</u>	<u>\$ 14,306,278</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND LEVY RATES

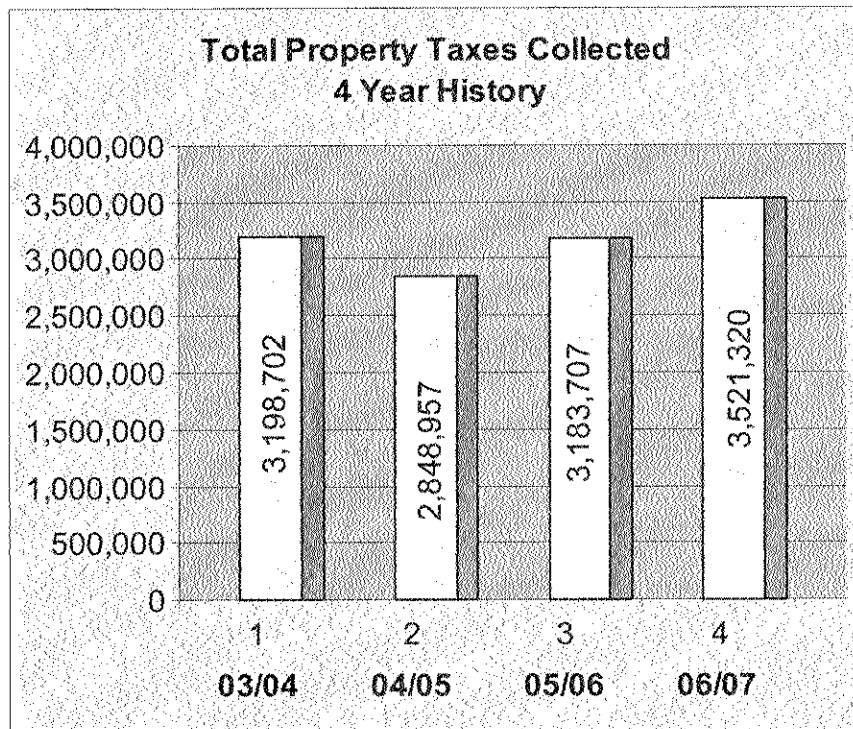
Cherokee County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and the fees that will be charged for various county services.

State revenue cutbacks, health insurance increases, a generally flat economy, and a decreasing balance in available funds have influenced the Cherokee County Board of Supervisors' decision concerning tax rates for the 2007 fiscal year budget.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND LEVY RATES (Continued)

The fiscal year 2007 budget certified tax revenues, broken down by the major funds that Cherokee County receives are as follows:

	<u>Fiscal Year 2007</u> <u>Dollars Certified</u>	<u>Fiscal Year 2006</u> <u>Dollars Certified</u>	<u>Fiscal Year 2005</u> <u>Dollars Certified</u>	<u>Fiscal Year 2004</u> <u>Dollars Certified</u>
General Fund	\$1,851,711	\$1,731,007	\$1,684,801	\$1,845,024
Mental Health Fund	458,288	346,201	336,960	415,131
Rural Basic Fund	1,211,321	1,106,499	827,196	938,547
Total Taxes Collected	\$3,521,320	\$3,183,707	\$2,848,957	\$3,198,702



Levy Rates (based on \$/\$1,000 taxable valuation) for Cherokee County have been:

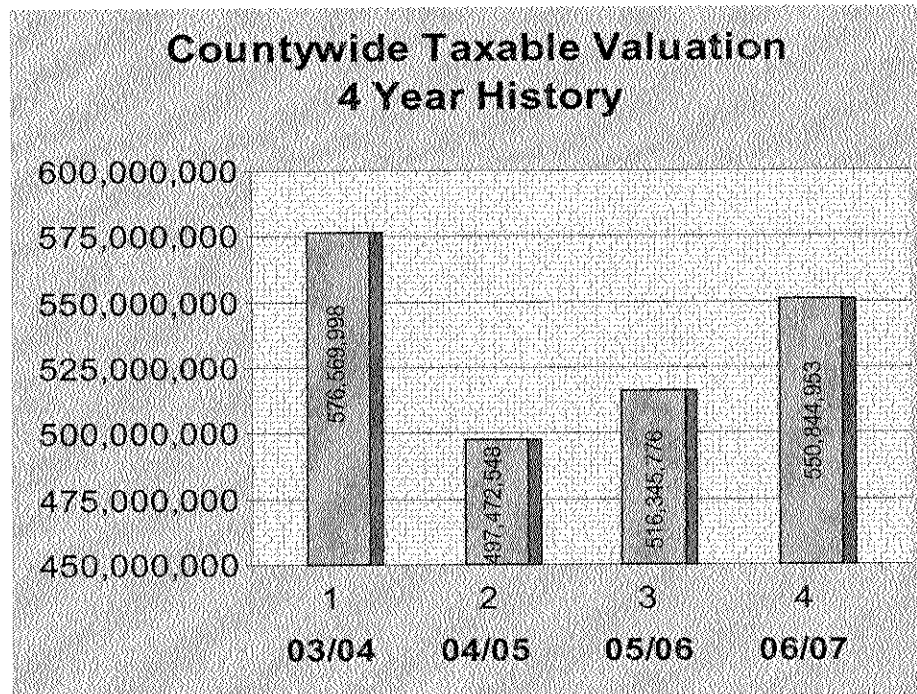
	<u>Fiscal Year 2007</u> <u>Levy Rates</u>	<u>Fiscal Year 2006</u> <u>Levy Rates</u>	<u>Fiscal Year 2005</u> <u>Levy Rates</u>	<u>Fiscal Year 2004</u> <u>Levy Rates</u>
General Fund	3.50	3.50	3.20	3.20
Mental Health Fund	.86623	.70	.72	.72
Rural Basic Fund	3.25	3.25	2.24846	2.24846

Iowa Code limits the General Fund levy rate to \$3.50 per \$1,000 of taxable value. A majority of Iowa Counties are at that limit and levy in the General Supplemental Fund which allows them to exceed the \$3.50 general basic levy for certain expenditures which include employee benefits (i.e. health insurance, FICA, and IPERS), county risk management expenditures, election costs, and court ordered settlements. The Rural Basic levy rate limit is \$3.95 per \$1,000 of taxable value. Each year, more counties are reaching that limit and are using the Rural Supplemental levy for expenditures as allowed in the general supplement fund.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND LEVY RATES – (Continued)

Cherokee County's Taxable Valuations reflect a slight increase for fiscal year 2007:

	Fiscal Year 2007 Valuations	Fiscal Year 2006 Valuations	Fiscal Year 2005 Valuations	Fiscal Year 2004 Valuations
Rural Taxable	389,808,290	357,515,424	344,529,208	417,417,705
Urban Taxable	161,036,663	158,830,352	152,943,340	159,152,293
Total Taxable	550,844,953	516,345,776	497,472,548	576,569,998



Cherokee County has been fortunate that there have been several good economic years in the past, allowing fund balance to carry the burden of the fiscal year 2007 budget concerns due to the decrease in valuations. Looking forward into the fiscal year 2008 budget year, Cherokee County will need to address increasing wage related benefits with potential levy rate increases in the Rural Basic levy and/or utilizing the General Basic Supplemental levy to maintain a desired 25% ending fund balance. This ending fund balance is needed to cover expenses incurred during the first quarter of the fiscal year, before any potential tax revenues are received via property tax payments.

Cherokee County anticipates a gradual increase in valuations in the upcoming budgets, however, it will take several years to gain back the extremely large decrease that was seen for fiscal year 2005. Future budget processes will present difficult balancing of covering mandated services and expenditures while maintaining a conservative attitude with the tax levy rates.

### CONTACTING CHEROKEE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Cherokee County's citizens, taxpayers, customers, and creditors with a general overview of Cherokee County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Cherokee County Auditor's Office, 520 West Main, Cherokee, Iowa.

CHEROKEE COUNTY  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

Exhibit A

Governmental  
Activities

ASSETS

Cash and pooled investments	\$ 4,603,956
Receivables:	
Property tax:	
Delinquent	2,363
Succeeding year	3,422,591
Interest and penalty on property tax	2,674
Accounts	978,080
Accrued interest	27,260
Due from other governments	176,241
Inventories	333,340
Prepaid expenses	220,595
Capital assets (net of accumulated depreciation)	<u>17,305,827</u>
Total assets	<u>27,072,927</u>

LIABILITIES

Accounts payable	206,937
Due to other governments	129,271
Deferred revenue:	
Succeeding year property tax	3,422,591
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences	<u>186,343</u>
Total liabilities	<u>3,945,142</u>

NET ASSETS

Invested in capital assets	17,305,827
Restricted for:	
Mental health purposes	19,640
Rural service purposes	282,614
Secondary roads purposes	3,411,981
Other purposes	306,807
Unrestricted	<u>1,800,916</u>
Total net assets	<u>\$ 23,127,785</u>

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

Exhibit B

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	
Functions/Programs	Expenses				
Governmental activities:					
Public safety and legal services	\$ 1,439,214	\$ 254,239	\$ 7,968	\$ -	\$ (1,177,007)
Physical health and social services	716,618	277,411	373,853	-	(65,354)
Mental health	1,230,777	21,143	652,782	-	(556,852)
County environment and education	458,859	23,289	19,399	-	(416,171)
Roads and transportation	3,389,616	403,740	3,133,966	2,332,064	2,480,154
Governmental services to residents	304,752	236,732	173,779	-	105,759
Administration	<u>1,475,024</u>	<u>116,056</u>	<u>-</u>	<u>-</u>	<u>(1,358,968)</u>
Total	<u>\$ 9,014,860</u>	<u>\$ 1,332,610</u>	<u>\$ 4,361,747</u>	<u>\$ 2,332,064</u>	<u>(988,439)</u>
General Revenues:					
Property and other county tax levied for:					
General purposes					3,538,501
Penalty and interest on property tax					26,997
State tax credits					191,711
Tax increment financing					125,361
Grants and contributions not restricted to specific purpose					62,100
Unrestricted investment earnings					174,268
Miscellaneous					<u>8,162</u>
Total general revenues					<u>4,127,100</u>
Change in net assets					3,138,661
Net assets beginning of year					<u>19,989,124</u>
Net assets end of year					<u>\$ 23,127,785</u>

See notes to financial statements.



CHEROKEE COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

Exhibit C

		Special Revenue				
	General	Mental Health	Rural Services	Secondary Roads	Nonmajor	Total
<b>ASSETS</b>						
Cash and pooled investments	\$1,383,233	\$ 188,160	\$ 230,100	\$ 2,339,373	\$289,756	\$4,430,622
Receivables:						
Accounts	26,233	6,597	52,020	875,609	17,621	978,080
Property tax:						
Delinquent	1,412	350	494	-	107	2,363
Succeeding year	1,786,649	442,185	1,159,114	-	34,643	3,422,591
Interest and penalty on property tax	2,674	-	-	-	-	2,674
Accrued interest	27,260	-	-	-	-	27,260
Due from other governments	171,224	3,368	-	-	1,649	176,241
Prepaid expense	152,216	-	-	68,379	-	220,595
Inventories	-	-	-	333,340	-	333,340
Total assets	<u>\$3,550,901</u>	<u>\$ 640,660</u>	<u>\$1,441,728</u>	<u>\$ 3,616,701</u>	<u>\$343,776</u>	<u>\$9,593,766</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 48,443	\$ 49,570	\$ -	\$ 106,599	\$ 2,325	\$ 206,937
Due to other governments	7,227	118,901	-	3,143	-	129,271
Deferred revenue:						
Succeeding year property tax	1,786,649	442,185	1,159,114	-	34,643	3,422,591
Other	4,002	343	494	-	107	4,946
Total liabilities	<u>1,846,321</u>	<u>610,999</u>	<u>1,159,608</u>	<u>109,742</u>	<u>37,075</u>	<u>3,763,745</u>
Fund balances:						
Reserved for:						
Inventories	-	-	-	333,340	-	333,340
Unreserved, reported in:						
General fund	1,704,580	-	-	-	-	1,704,580
Special revenue funds	-	29,661	282,120	3,173,619	306,701	3,792,101
Total fund balances	<u>1,704,580</u>	<u>29,661</u>	<u>282,120</u>	<u>3,506,959</u>	<u>306,701</u>	<u>5,830,021</u>
Total liabilities and fund balances	<u>\$3,550,901</u>	<u>\$ 640,660</u>	<u>\$1,441,728</u>	<u>\$ 3,616,701</u>	<u>\$343,776</u>	<u>\$9,593,766</u>

See notes to financial statements.

CHEROKEE COUNTY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Exhibit D

Total governmental fund balances	\$ 5,830,021
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$21,930,059 and the accumulated depreciation is \$4,624,232.	17,305,827
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	4,946
The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	173,334
Compensated absences payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(186,343)</u>
Net assets of governmental activities	<u>\$23,127,785</u>

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

Exhibit E

		Special Revenue				
	General	Mental Health	Rural Services	Secondary Roads	Nonmajor	Total
Revenues:						
Property and other County tax	\$ 1,686,962	\$ 336,503	\$ 1,406,505	\$ -	\$ 107,934	\$ 3,537,904
Interest and penalty on property tax	26,574	-	-	-	-	26,574
Tax increment financing revenues	-	-	-	-	125,361	125,361
Intergovernmental	907,555	675,541	63,306	3,211,414	34,463	4,892,279
Licenses and permits	16,806	-	625	31,248	-	48,679
Charges for service	299,163	550	375	2,224	2,452	304,764
Use of money and property	176,263	-	-	5,503	1,911	183,677
Miscellaneous	68,248	3,876	25	136,208	14,697	223,054
Total revenues	<u>3,181,571</u>	<u>1,016,470</u>	<u>1,470,836</u>	<u>3,386,597</u>	<u>286,818</u>	<u>9,342,292</u>
Expenditures:						
Operating:						
Public safety and legal services	1,225,494	-	156,991	-	71,652	1,454,137
Physical health and social services	702,008	-	-	-	16,450	718,458
Mental health	-	1,227,280	-	-	-	1,227,280
County environment and education	216,535	-	208,010	-	22,983	447,528
Roads and transportation	-	-	53,628	2,954,574	-	3,008,202
Governmental services to residents	399,742	-	-	-	8,802	408,544
Administration	703,743	-	-	-	177,642	881,385
Capital projects	-	-	-	1,132,415	-	1,132,415
Total expenditures	<u>3,247,522</u>	<u>1,227,280</u>	<u>418,629</u>	<u>4,086,989</u>	<u>297,529</u>	<u>9,277,949</u>
Excess (deficiency) of revenues over expenditures	<u>(65,951)</u>	<u>(210,810)</u>	<u>1,052,207</u>	<u>(700,392)</u>	<u>(10,711)</u>	<u>64,343</u>
Other financing sources (uses):						
Sale of assets	-	-	-	7,500	-	7,500
Operating transfers in	9,909	-	-	1,034,000	-	1,043,909
Operating transfers out	-	-	(1,034,000)	-	(9,909)	(1,043,909)
Total other financing sources (uses)	<u>9,909</u>	<u>-</u>	<u>(1,034,000)</u>	<u>1,041,500</u>	<u>(9,909)</u>	<u>7,500</u>
Net change in fund balances	(56,042)	(210,810)	18,207	341,108	(20,620)	71,843
Fund balances, beginning of year	<u>1,760,622</u>	<u>240,471</u>	<u>263,913</u>	<u>3,165,851</u>	<u>327,321</u>	<u>5,758,178</u>
Fund balances, end of year	<u>\$ 1,704,580</u>	<u>\$ 29,661</u>	<u>\$ 282,120</u>	<u>\$ 3,506,959</u>	<u>\$ 306,701</u>	<u>\$ 5,830,021</u>

See notes to financial statements.

CHEROKEE COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

Exhibit F

Net change in fund balances - Total governmental funds \$ 71,843

Amounts reported for governmental activities in the Statement of  
 Activities are different because:

Governmental funds report capital outlays as expenditures while  
 governmental activities report depreciation expense to allocate those  
 expenditures over the life of the assets. Capital outlay expenditures and  
 contributed capital assets exceeded depreciation expense in the current  
 year as follows:

Expenditures for capital assets	\$1,528,844	
Capital assets contributed by the Iowa Department of Transportation	2,254,616	
Depreciation expense	<u>(771,574)</u>	3,011,886

In the Statement of Activities, the loss on the disposition of capital assets  
 is reported whereas the governmental funds report the proceeds from the  
 sale as an increase in financial resources. (12,338)

Because some revenues will not be collected for several months after the  
 County's year end, they are not considered available revenues and are  
 deferred in the governmental funds as follows:

Property tax	597	
Other	<u>423</u>	1,020

Some expenses reported in the Statement of Activities do not require the  
 use of current financial resources and, therefore, are not reported as  
 expenditures in governmental funds, as follows:

Compensated absences	(24,400)
----------------------	----------

The Internal Service Fund is used by management to charge the costs of  
 employee health benefits to individual funds. The change in net assets of  
 the Internal Service Fund is reported with governmental activities.

90,650

Change in net assets of governmental activities	<u>\$3,138,661</u>
---	--------------------

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

Exhibit G

Internal  
Service-  
Employee  
Group  
Health

ASSETS

Cash

\$ 173,334

LIABILITIES

Accounts payable

-

NET ASSETS

Unrestricted

\$ 173,334

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

Exhibit H

			Internal Service- Employee Group Health
Operating revenues:			
Reimbursements from employees	\$ 89,339		
Reimbursements from operating funds	538,070		
Insurance reimbursements	<u>288</u>	\$ 627,697	
Operating expenses:			
Insurance premiums	532,936		
Administrative fees	7,022		
Miscellaneous	<u>295</u>	<u>540,253</u>	
Operating income		87,444	
Non-operating revenues:			
Interest income		<u>3,206</u>	
Net income		90,650	
Net assets beginning of year		<u>82,684</u>	
Net assets end of year		<u>\$ 173,334</u>	

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

Exhibit I

Internal  
Service-  
Employee  
Group  
Health

Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 538,070
Cash received from employees and others	117,742
Cash payments to suppliers for services	<u>(540,539)</u>
Net cash provided by operating activities	115,273
 Cash flows from investing activities:	
Interest on investments	<u>3,206</u>
 Net increase in cash and cash equivalents	118,479
 Cash and cash equivalents at beginning of year	<u>54,855</u>
 Cash and cash equivalents at end of year	<u>\$ 173,334</u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 87,444
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	28,114
Decrease in accounts payable	<u>(285)</u>
 Net cash provided by operating activities	<u>\$ 115,273</u>

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2006

Exhibit J

ASSETS

Cash and pooled investments:

County treasurer \$ 733,098

Other county officials 39,858

Receivables:

Property tax:

Delinquent 10,464

Succeeding year 10,268,257

Accounts 31,978

Special assessments 185,489

Total assets 11,269,144

LIABILITIES

Accounts payable 919

Trusts payable 12,479

Due to other governments 11,255,746

Total liabilities 11,269,144

Net Assets \$ -

See notes to financial statements.



CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherokee County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Cherokee County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the County. The County has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Cherokee County Assessor's Conference Board, Cherokee County E911 Service Board, Plains Area Mental Health, Cherokee County Solid Waste Commission, and the Northwest Iowa Multicounty Regional Juvenile Detention Center. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in Agency Funds of the County.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets* consists of capital assets net of accumulated depreciation.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

Additionally, the County reports the following funds:

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Proprietary Fund - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments), and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary fund of the County applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting - (Continued)

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements.

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004, assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006; and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity - (Continued)

Capital Assets - Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds, and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$65,000
Buildings	25,000
Equipment	10,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-100
Infrastructure	12-65
Equipment and vehicles	5-25

Due to Other Governments - Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable - Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity - (Continued)

Compensated Absences - County employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, and Secondary Roads Funds.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets - The net assets of the Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in any functions.

2. CASH AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2006, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments meeting the disclosure requirements of Government Auditing Standards Board Statement Number 3.

The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the County.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	<u>\$1,034,000</u>
General	Special Revenue:	
	County Government Assistance	2,271
	Capital Projects	<u>7,638</u>
		<u>9,909</u>
		<u>\$1,043,909</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006, was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 180,750	\$ 17,767	\$ -	\$ 198,517
Construction in progress	<u>3,085,089</u>	<u>-</u>	<u>(244,796)</u>	<u>2,840,293</u>
Total capital assets not being depreciated	<u>3,265,839</u>	<u>17,767</u>	<u>(244,796)</u>	<u>3,038,810</u>
Capital assets being depreciated:				
Buildings	3,547,197	29,170	-	3,576,367
Improvements other than buildings	9,750	-	-	9,750
Equipment and vehicles	5,007,421	528,396	(347,985)	5,187,832
Infrastructure, road network	<u>6,599,495</u>	<u>3,517,805</u>	<u>-</u>	<u>10,117,300</u>
Total capital assets being depreciated	<u>15,163,863</u>	<u>4,075,371</u>	<u>(347,985)</u>	<u>18,891,249</u>
Less accumulated depreciation for:				
Buildings	1,578,973	50,218	-	1,629,191
Improvements other than buildings	2,134	487	-	2,621
Equipment and vehicles	2,230,912	314,298	(270,766)	2,274,444
Infrastructure, road network	<u>311,405</u>	<u>406,571</u>	<u>-</u>	<u>717,976</u>
Total accumulated depreciation	<u>4,123,424</u>	<u>771,574</u>	<u>(270,766)</u>	<u>4,624,232</u>
Total capital assets being depreciated, net	<u>11,040,439</u>	<u>3,303,797</u>	<u>(77,219)</u>	<u>14,267,017</u>
Governmental activities capital assets, net	<u>\$14,306,278</u>	<u>\$3,321,564</u>	<u>\$(322,015)</u>	<u>\$17,305,827</u>

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

4. CAPITAL ASSETS - (Continued)

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 38,259
Physical health and social services	3,003
Mental health	3,274
County environment and education	14,162
Roads and transportation	654,805
Governmental services to residents	4,878
Administration	<u>53,193</u>
Total depreciation expense - governmental activities	<u>\$771,574</u>

5. DUE TO OTHER GOVERNMENTS

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. The Agency Fund collections also include accruals of property tax for the succeeding year. The tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	<u>\$ 7,227</u>
Special Revenue:		
Mental Health	Services	118,901
Secondary Roads		<u>3,143</u>
		<u>122,044</u>
Total for governmental funds		<u>\$ 129,271</u>
Agency:		
County Assessor	Collections	\$ 437,195
Schools		6,617,964
Community Colleges		359,068
Corporations		2,797,316
Townships		201,001
Auto License and Use Tax		237,352
Agricultural Extension		155,503
All other		<u>450,347</u>
Total for agency funds		<u>\$11,255,746</u>

6. CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2006, is as follows:

Compensated Absences:	
Balance, beginning of year	\$161,943
Increases	<u>24,400</u>
Balance, end of year	<u>\$186,343</u>
Due within one year	<u>\$186,343</u>



CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

7. PENSION AND RETIREMENT BENEFITS

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$189,956, \$185,026, and \$182,600, respectively, equal to the required contributions for each year.

8. RISK MANAGEMENT

Cherokee County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2006, were \$105,078.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

8. RISK MANAGEMENT - (Continued)

retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$5,000,000 and \$20,000, respectively. The County Treasurer and County Sheriff have excess coverage of \$50,000 and \$30,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. EMPLOYEE HEALTH INSURANCE PLAN

Cherokee County entered into an administrative services agreement with Employee Benefit Systems to administer the employee partial self-funded health plan. Monthly payments of service fees and plan contributions are recorded as expenditures in the operating funds at the time of payment to the Internal Service, Employee Partial Self-Funded Health Plan Fund maintained by the County Treasurer. Under the agreement, deductible and coinsurance expenses are processed by Employee Benefit Systems with payments from the Internal Service, Employee Partial Self-Funded Health Plan Fund. The employer sponsors a group insurance policy which provides comprehensive hospital and medical coverage for eligible employees and, if elected, their spouses and dependents. Under the partial self-funded plan, the Plan will reimburse an eligible employee for a portion of the deductible and coinsurance expenses under the contract.

10. INTERGOVERNMENTAL AGREEMENT

The County participates in an agreement with Cherokee County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member county and municipalities. Payments to that commission totaled \$105,975 during the year ended June 30, 2006.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

10. INTERGOVERNMENTAL AGREEMENT - (Continued)

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The total costs to the Commission have been estimated at \$1,155,190 as of June 30, 2006, and the portion of the liability that has been recognized is \$1,044,784. The Commission has begun to accumulate resources to fund these costs, and at June 30, 2006, deposits of \$235,565 are restricted for these purposes. The closure care account is fully funded at June 30, 2006, however, the local government guaranty was used in prior years for the Commission to demonstrate financial assurance for postclosure care costs. The Commission obtained the local government guaranty from Cherokee County on June 10, 1997. No estimate has been made as to the effect of possible future assessments to the County.

11. DEVELOPMENT AND REBATE AGREEMENT

The County has entered into development agreements to assist in urban renewal projects. The County agreed to rebate incremental taxes paid by the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban renewal plan. Under the first agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated on a minimum value of \$4,000,000. During the year ended June 30, 2006, the County rebated \$68,712 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

Under the second agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated. During the year ended June 30, 2006, the County rebated \$11,486 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

Under the third agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the thirteen year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated. During the year ended June 30, 2006, the County rebated \$43,816 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

12. COMMITMENTS

The County has entered into the following contracts which were not completed as of June 30, 2006:

<u>Project</u>	<u>Total Contract Amount</u>	<u>Costs Incurred As of 6-30-06</u>	<u>Remaining Commitment As of 6-30-06</u>
Mill Creek bridge, engineering	\$ 88,000	\$ 83,362	\$ 4,638
Mill Creek bridge	<u>663,192</u>	<u>576,094</u>	<u>87,098</u>
	<u>\$751,192</u>	<u>\$659,456</u>	<u>\$91,736</u>

The balance remaining at June 30, 2006, will be paid as work on the projects progresses.

13. JUVENILE DETENTION CENTER

The County participates in Northwest Iowa Multicounty Regional Juvenile Detention Center, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Center is to establish and maintain a juvenile detention facility and related services. The Center does not determine capital allocations of the equity interest for individual participating jurisdictions. The Center issues separate financial statements on the accrual basis and the transactions of the Center are not included in the financial statements of the County. The Center's activity for the fiscal year ending June 30, 2006, which is the latest information available, is summarized as follows:

Net assets, beginning of year	\$293,928
Revenues	896,030
Expenses	<u>765,583</u>
Net assets, end of year	<u>\$424,375</u>

The financial statements of the Center are available at the Center's administrative office in Cherokee, Iowa.

14. RELATED PARTY TRANSACTIONS

The County had business transactions between the County and County officials or employees totaling \$3,450 during the year ended June 30, 2006.

15. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

16. OPERATING LEASE

The County has three leases. The Auditor's office leases a postage machine, the County Attorney's office leases a copy machine, and the Recorder's office leases a copy machine. Rental expense incurred for these leases was \$6,762 for the year ended June 30, 2006. Minimum amounts payable under these operating leases are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Auditor</u>	<u>County</u> <u>Attorney</u>	<u>Recorder</u>	<u>Total Minimum</u> <u>Lease Payments</u>
2007	\$3,456	\$1,912	\$232	\$ 5,600
2008	3,456	1,912	-	5,368
2009	<u>1,728</u>	<u>478</u>	<u>-</u>	<u>2,206</u>
	<u>\$8,640</u>	<u>\$4,302</u>	<u>\$232</u>	<u>\$13,174</u>

## REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY  
BUDGETARY COMPARISON  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN BALANCES - BUDGET  
AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
Receipts:				
Property and other County tax	\$3,537,742	\$3,529,976	\$ 3,584,976	\$ (47,234)
Interest and penalty on property tax	26,613	8,600	8,600	18,013
Tax increment financing revenues	125,361	125,361	125,361	-
Intergovernmental	4,334,753	5,761,295	5,820,795	(1,486,042)
Licenses and permits	49,047	22,739	22,739	26,308
Charges for service	308,088	256,110	256,110	51,978
Use of money and property	180,843	118,500	118,500	62,343
Miscellaneous	135,005	35,375	41,775	93,230
Total receipts	<u>8,697,452</u>	<u>9,857,956</u>	<u>9,978,856</u>	<u>(1,281,404)</u>
Disbursements:				
Operating:				
Public safety and legal services	1,452,338	1,565,702	1,606,973	154,635
Physical health and social services	723,455	1,740,112	1,752,612	1,029,157
Mental health	1,243,926	1,148,437	1,248,437	4,511
County environment and education	449,605	477,604	477,604	27,999
Roads and transportation	3,019,563	3,070,628	3,070,628	51,065
Governmental services to residents	409,165	456,524	466,524	57,359
Administration	936,717	961,024	1,112,024	175,307
Capital projects	<u>1,177,019</u>	<u>2,018,000</u>	<u>2,018,000</u>	<u>840,981</u>
Total disbursements	<u>9,411,788</u>	<u>11,438,031</u>	<u>11,752,802</u>	<u>2,341,014</u>
Excess (deficiency) of receipts over disbursements	(714,336)	(1,580,075)	(1,773,946)	1,059,610
Other financing sources, net	<u>7,500</u>	<u>505</u>	<u>505</u>	<u>6,995</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(706,836)	(1,579,570)	(1,773,441)	1,066,605
Balance beginning of year	<u>5,137,458</u>	<u>4,688,467</u>	<u>4,688,467</u>	<u>448,991</u>
Balance end of year	<u>\$4,430,622</u>	<u>\$3,108,897</u>	<u>\$ 2,915,026</u>	<u>\$ 1,515,596</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY  
BUDGETARY COMPARISON SCHEDULE-BUDGET  
TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	<u>Governmental Funds</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Modified</u> <u>Accrual</u> <u>Basis</u>
Revenues	\$8,697,452	\$ 644,840	\$9,342,292
Expenditures	<u>9,411,788</u>	<u>(133,839)</u>	<u>9,277,949</u>
Net	(714,336)	778,679	64,343
Other financing sources, net	7,500	-	7,500
Beginning fund balances	<u>5,137,458</u>	<u>620,720</u>	<u>5,758,178</u>
Ending fund balances	<u>\$4,430,622</u>	<u>\$ 1,399,399</u>	<u>\$5,830,021</u>

See accompanying independent auditor's report.



CHEROKEE COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service, and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, and the Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$314,771. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council; for the County Assessor by the County Conference Board; for the E911 System by the E911 Service Board; and for Disaster Services by the Cherokee County Emergency Management Commission.

## OTHER SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

Schedule 1

	Special Revenue										
	Resource Enhancement and Protection	County Recorder's Records Management	Recorder's Electronic Transaction Fee	County Betterment	Forfeited Property Fund	Hotel and Flood Relief Grants	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	Total
<b>ASSETS</b>											
Cash and pooled investments	\$ 72,487	\$ 6,460	\$ 620	\$ 108,183	\$ 11,148	\$ 33	\$ -	\$ 2,686	\$ 38,581	\$ 49,558	\$ 289,756
Receivables:											
Accounts	-	-	-	17,340	281	-	-	-	-	-	17,621
Property tax:											
Delinquent	-	-	-	-	-	-	107	-	-	-	107
Succeeding year	-	-	-	-	-	-	34,643	-	-	-	34,643
Due from other governments	-	649	-	-	-	1,000	-	-	-	-	1,649
Total assets	<u>\$ 72,487</u>	<u>\$ 7,109</u>	<u>\$ 620</u>	<u>\$ 125,523</u>	<u>\$ 11,429</u>	<u>\$ 1,033</u>	<u>\$ 34,750</u>	<u>\$ 2,686</u>	<u>\$ 38,581</u>	<u>\$ 49,558</u>	<u>\$ 343,776</u>
<b>LIABILITIES AND FUND BALANCES</b>											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ 64	\$ -	\$ 1,000	\$ -	\$ -	\$ -	\$ 1,261	\$ 2,325
Deferred revenue:											
Succeeding year property tax	-	-	-	-	-	-	34,643	-	-	-	34,643
Other	-	-	-	-	-	-	107	-	-	-	107
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>64</u>	<u>-</u>	<u>1,000</u>	<u>34,750</u>	<u>-</u>	<u>-</u>	<u>1,261</u>	<u>37,075</u>
Fund balances:											
Unreserved	<u>72,487</u>	<u>7,109</u>	<u>620</u>	<u>125,459</u>	<u>11,429</u>	<u>33</u>	<u>-</u>	<u>2,686</u>	<u>38,581</u>	<u>48,297</u>	<u>306,701</u>
Total fund balances	<u>72,487</u>	<u>7,109</u>	<u>620</u>	<u>125,459</u>	<u>11,429</u>	<u>33</u>	<u>-</u>	<u>2,686</u>	<u>38,581</u>	<u>48,297</u>	<u>306,701</u>
Total liabilities and fund balances	<u>\$ 72,487</u>	<u>\$ 7,109</u>	<u>\$ 620</u>	<u>\$ 125,523</u>	<u>\$ 11,429</u>	<u>\$ 1,033</u>	<u>\$ 34,750</u>	<u>\$ 2,686</u>	<u>\$ 38,581</u>	<u>\$ 49,558</u>	<u>\$ 343,776</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2006

Schedule 2

	Special Revenue													Total
	Resource Enhancement and Protection	County Recorder's Records Management	County Government Assistance	Recorder's Electronic Transaction Fee	County Betterment	Forfeited Property Fund	Hotel and Flood Relief Grants	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	Homeland Security Region 3	Capital Projects	
Revenues:														
Property and other County tax	\$ -	\$ -	\$ -	\$ -	\$ 107,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,934
Tax increment financing revenues	-	-	-	-	-	-	-	125,361	-	-	-	-	-	125,361
Intergovernmental	4,873	-	-	-	-	-	13,000	-	-	-	3,140	13,450	-	34,463
Charges for service	-	2,452	-	-	-	-	-	-	-	-	-	-	-	2,452
Use of money and property	1,231	71	-	50	-	-	-	-	-	559	-	-	-	1,911
Miscellaneous	-	-	-	-	3,475	9,696	-	-	1,526	-	-	-	-	14,697
Total revenues	6,104	2,523	-	50	111,409	9,696	13,000	125,361	1,526	559	3,140	13,450	-	286,818
Expenditures:														
Operating:														
Public safety and legal services	-	-	-	-	51,490	994	-	-	-	-	19,168	-	-	71,652
Physical health and social services	-	-	-	-	3,000	-	-	-	-	-	-	13,450	-	16,450
County environment and education	2,519	-	-	-	18,000	-	-	1,348	1,116	-	-	-	-	22,983
Governmental services to residents	-	1,051	-	7,751	-	-	-	-	-	-	-	-	-	8,802
Administration	-	-	-	-	40,629	-	13,000	124,013	-	-	-	-	-	177,642
Total expenditures	2,519	1,051	-	7,751	113,119	994	13,000	125,361	1,116	-	19,168	13,450	-	297,529
Excess (deficiency) of revenues over expenditures	3,585	1,472	-	(7,701)	(1,710)	8,702	-	-	410	559	(16,028)	-	-	(10,711)
Other financing uses														
Operating transfers out	-	-	(2,271)	-	-	-	-	-	-	-	-	-	(7,638)	(9,909)
Net change in fund balances	3,585	1,472	(2,271)	(7,701)	(1,710)	8,702	-	-	410	559	(16,028)	-	(7,638)	(20,620)
Fund balances beginning of year	68,902	5,637	2,271	8,321	127,169	2,727	33	-	2,276	38,022	64,325	-	7,638	327,321
Fund balances end of year	\$ 72,487	\$ 7,109	\$ -	\$ 620	\$ 125,459	\$ 11,429	\$ 33	\$ -	\$ 2,686	\$ 38,581	\$ 48,297	\$ -	\$ -	\$ 306,701

See accompanying independent auditor's report.

CHEROKEE COUNTY  
COMBINING SCHEDULE OF FIDUCIARY ASSETS  
AND LIABILITIES - AGENCY FUNDS  
JUNE 30, 2006

Schedule 3

	County Offices	Agricultural Extension	County Assessor	Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
<u>ASSETS</u>										
Cash and pooled investments:										
County treasurer	\$ -	\$ 2,247	\$ 123,719	\$ 101,512	\$ 6,969	\$ 53,974	\$ 2,948	\$ 237,352	\$ 204,377	\$ 733,098
Other County officials	39,858	-	-	-	-	-	-	-	-	39,858
Receivables:										
Property tax:										
Delinquent	-	120	246	5,748	281	3,994	74	-	1	10,464
Succeeding year	-	153,136	313,230	6,510,704	351,818	2,739,348	197,979	-	2,042	10,268,257
Accounts	19,173	-	-	-	-	-	-	-	12,805	31,978
Special assessments	-	-	-	-	-	-	-	-	185,489	185,489
Total assets	<u>\$ 59,031</u>	<u>\$ 155,503</u>	<u>\$ 437,195</u>	<u>\$ 6,617,964</u>	<u>\$ 359,068</u>	<u>\$ 2,797,316</u>	<u>\$ 201,001</u>	<u>\$ 237,352</u>	<u>\$ 404,714</u>	<u>\$11,269,144</u>
<u>LIABILITIES</u>										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 919	\$ 919
Trusts payable	12,479	-	-	-	-	-	-	-	-	12,479
Due to other governments	<u>46,552</u>	<u>155,503</u>	<u>437,195</u>	<u>6,617,964</u>	<u>359,068</u>	<u>2,797,316</u>	<u>201,001</u>	<u>237,352</u>	<u>403,795</u>	<u>11,255,746</u>
Total liabilities	<u>\$ 59,031</u>	<u>\$ 155,503</u>	<u>\$ 437,195</u>	<u>\$ 6,617,964</u>	<u>\$ 359,068</u>	<u>\$ 2,797,316</u>	<u>\$ 201,001</u>	<u>\$ 237,352</u>	<u>\$ 404,714</u>	<u>\$11,269,144</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS  
 AND LIABILITIES - AGENCY FUNDS  
 YEAR ENDED JUNE 30, 2006

Schedule 4

	County Offices	Agricultural Extension	County Assessor	Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
<b>ASSETS AND LIABILITIES</b>										
Balances beginning of year	\$ 68,128	\$ 147,394	\$ 423,297	\$6,751,517	\$ 326,815	\$ 2,677,450	\$ 189,514	\$ 281,303	\$ 526,990	\$11,392,408
Additions:										
Property and other County tax	-	152,108	311,019	6,444,886	348,942	2,607,722	203,886	-	13,156	10,081,719
E911 surcharge	-	-	-	-	-	-	-	-	111,037	111,037
State tax credits	-	9,171	19,623	415,792	20,191	173,578	11,032	-	122	649,509
Office fees and collections	302,144	-	3,594	-	-	-	-	-	73,927	379,665
Auto licenses, use tax, and postage	-	-	-	-	-	-	-	2,834,463	-	2,834,463
Trusts	-	-	-	-	-	-	-	-	69,533	69,533
Miscellaneous	-	-	1,885	-	-	-	-	-	105,406	107,291
Total additions	302,144	161,279	336,121	6,860,678	369,133	2,781,300	214,918	2,834,463	373,181	14,233,217
Deductions:										
Agency remittances:										
To other governments	302,098	153,170	322,223	6,994,231	336,880	2,661,434	203,431	2,878,414	449,685	14,301,566
Trusts paid out	9,143	-	-	-	-	-	-	-	45,772	54,915
Total deductions	311,241	153,170	322,223	6,994,231	336,880	2,661,434	203,431	2,878,414	495,457	14,356,481
Balances end of year	\$ 59,031	\$ 155,503	\$ 437,195	\$6,617,964	\$ 359,068	\$ 2,797,316	\$ 201,001	\$ 237,352	\$404,714	\$11,269,144

See accompanying independent auditor's report.

CHEROKEE COUNTY  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY  
FUNCTION - ALL GOVERNMENTAL FUNDS  
FOR THE LAST FIVE YEARS

Schedule 5

	Modified Accrual Basis				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues:					
Property and other County tax	\$3,537,904	\$3,210,233	\$ 3,436,192	\$3,334,378	\$ 2,998,740
Interest and penalty on property tax	26,574	28,397	35,093	35,966	37,817
Tax increment financing	125,361	99,729	109,332	99,114	50,219
Intergovernmental	4,892,279	4,459,666	4,232,454	5,161,854	4,065,881
Licenses and permits	48,679	108,040	103,453	39,489	37,266
Charges for service	304,764	335,183	321,542	242,519	220,468
Use of money and property	183,677	130,554	123,060	187,829	287,402
Miscellaneous	223,054	135,606	59,516	45,934	104,829
Total	<u>\$9,342,292</u>	<u>\$8,507,408</u>	<u>\$ 8,420,642</u>	<u>\$9,147,083</u>	<u>\$ 7,802,622</u>
Expenditures:					
Operating:					
Public safety and legal services	\$1,454,137	\$1,454,196	\$ 1,370,125	\$1,320,597	\$ 1,231,163
Physical health and social services	718,458	707,775	663,044	647,641	654,557
Mental health	1,227,280	1,058,419	942,271	936,183	994,105
County environment and education	447,528	477,898	454,172	443,347	430,844
Roads and transportation	3,008,202	2,695,879	2,764,505	2,410,874	2,460,040
Governmental services to residents	408,544	278,675	250,100	223,760	213,477
Administration	881,385	964,982	911,033	873,962	853,086
Capital projects	1,132,415	1,474,330	2,656,062	2,128,600	1,590,394
Total	<u>\$9,277,949</u>	<u>\$9,112,154</u>	<u>\$10,011,312</u>	<u>\$8,984,964</u>	<u>\$ 8,427,666</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

Schedule 6

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Agriculture:			
Watershed Protection and Flood Protection	10.904	69-6114-5-15	\$ <u>76,107</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
State Administrative Matching			
Grants for Food Stamp Program	10.561		<u>5,727</u>
U.S. Department of Transportation:			
Iowa Department of Transportation::			
Highway Planning and Construction	20.205	BROS-CO18-(31)-8J-18	<u>446,096</u>
U.S. Election Assistance Commission:			
Iowa Secretary of State:			
Help America Vote Act			
Requirements Payments	90.401		<u>99,055</u>
U.S. Department of Health and Human Services:			
Iowa Department of Public Health			
Public Health Preparedness and			
Response for Bioterrorism	93.283	5886BT03	<u>13,222</u>
Local Administration Expense Reimbursement	93.558		<u>6,908</u>
	93.596		<u>1,633</u>
	93.658		<u>3,570</u>
	93.659		<u>873</u>
	93.667		<u>4,830</u>
	93.778		<u>9,286</u>
Local Purchase Allocation Mental			
Health Block Grant	93.667		<u>44,112</u>

(Continued)



CHEROKEE COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

Schedule 6  
(Continued)

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
State Homeland Security Grant Program (SHSGP II)	97.004		\$ 69,793
Homeland Security Grant Program			106,189
Homeland Security Grant Program	97.067		<u>46,452</u>
			<u>222,434</u>
 Emergency Management Performance Grants	 97.042		 <u>11,798</u>
 Citizen Corps Program	 97.053		 <u>11,768</u>
 Total			 <u>\$ 957,419</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Cherokee County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Officials of Cherokee County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Cherokee County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-(A,B, and D)-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Cherokee County and other parties to whom Cherokee County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Humpelman, Putzier & Co.*

October 19, 2006

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Officials of Cherokee County:

Compliance

We have audited the compliance of Cherokee County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Cherokee County's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of Cherokee County's management. Our responsibility is to express an opinion on Cherokee County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cherokee County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Cherokee County's compliance with those requirements.

In our opinion, Cherokee County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Cherokee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered Cherokee County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Cherokee County and other parties to whom Cherokee County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Hungelman, Putzier & Co.*

October 19, 2006

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were identified.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
  - CFDA Number 10.904 - Watershed Protection and Flood Protection.
  - CFDA Number 20.205 - Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Cherokee County did not qualify as a low-risk auditee.

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. We noted that generally one or two individuals in an office may have control over the following areas for which no compensating controls exist.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations, and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signature of the reviewer and the date of the review. Following are controls which should be implemented whenever possible:

1. All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.
2. Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks, handle or record cash.
3. Checks or warrants should be signed by an individual who does not otherwise participate in the preparation of the checks or warrants. Prior to signing, the checks or warrants and the supporting documentation should be reviewed for propriety. After signing, the checks or warrants should be mailed without allowing them to return to individuals who prepare the checks or warrants or approve vouchers for payment. This includes the payroll checks, which are currently being distributed by the same person who prepares them.

Response - With limited staff, each office maintains their own level of supervision for segregation of duties with respect to incoming mail, bank reconciliations, and checks and warrants signatures. Bank reconciliations will be done in a timely manner. Every effort will be made to assure checks, warrants, and payroll checks are prepared, entered, processed, and distributed properly by as many employees as possible to insure propriety. Also, with limited staff it is not always possible.

Conclusion - Response accepted.

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Financial Statements: (Continued)

REPORTABLE CONDITIONS: (Continued)

II-B-06      Unauthorized Disbursement - We examined a claim submitted from the Secondary Road Department which apparently was not authorized by the department head. This payment was for over \$86,000 and involved a state funded road project. This should not have been paid by the County. The amount was returned by the vendor in November 2006.

Recommendation - Claims should only be submitted for payment after they have been properly authorized by the department head or their designated representative.

Response - The claim referred to was paid when the department head was out of the office for medical reasons. Claims will be authorized by the department head or their designated person.

Conclusion - Response accepted.

II-C-06      Electronic Data Processing Systems - During our review of internal control, the existing control activities in the County's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the County's computer based systems were noted:

The County does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- ensuring that software not licensed to the County is not installed on a personal computer.

Also, the County does not have a written disaster recovery plan.

Recommendation - The County should develop written policies addressing the above items in order to improve the County's control over computer based systems. A written disaster recovery plan should be developed.

Response - A written policy to insure password privacy for all network systems has not been written at this time. A sample policy will be obtained and modified this year. Cherokee County does have a disaster recovery plan adopted and approved by the Board of Supervisors on May 16, 2006.

Conclusion - Response accepted.



CHEROKEE COUNTY

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Financial Statements: (Continued)

REPORTABLE CONDITIONS: (Continued)

II-D-06 Mileage Reimbursement - Several claims for mileage reimbursement from the Environmental Health Department did not indicate destinations or purpose of the travel.

Recommendation - All claims for travel reimbursements should be supported by proper documentation which indicates the destination and purpose. Any claims not properly supported should be treated as a taxable fringe benefit to the employee.

Response - The Environmental Health Department has since changed its mileage reporting procedures. Initially, employees were only required to report date and number of miles traveled. The form has been modified to require employees to report date, miles traveled, place they traveled to, and the purpose of the trip.

Conclusion - Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 did not exceed the amount budgeted in any service area.

III-B-06 Questionable Expenditures - No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-C-06 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

III-D-06 Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ronald Wetherell, Supervisor, Part owner of Wetherell Manufacturing	Parts, repairs, and supplies	\$2,108
Chris Staver, spouse of Sheriff Department employee, owner of High Country Auto Body	Parts and repairs	\$ 542
Thomas R. Jenness, Weed Commissioner	Well closings	\$ 800

CHEROKEE COUNTY

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2006

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

III-D-06 Business Transactions - (Continued)

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions with Chris Staver and Thomas R. Jenness do not appear to be conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The other transactions may represent a conflict of interest.

Recommendation - The County should review those transactions closely and may want to consult their attorney to determine that they are in compliance with the Code of Iowa.

Response - All business transactions are monitored at the time of payment. This is a small County and purchases are made locally whenever possible, many times they are the only vendor available in the County for that service.

Conclusion - Response accepted.

III-E-06 Bond Coverage - Surety bond coverage of County officials and employees is in accordance with statutory provisions.

III-F-06 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted. However, the County's investment policy states that the policy will be reviewed every two years, or more frequently if necessary. It appears the policy has not been reviewed since June 2000.

Recommendation - The investment policy, in addition to all County policies, should be reviewed and approved periodically to ensure that they are in compliance with legal requirements, and the intentions of County officials.

Response - The County Treasurer will be contacted to meet with the supervisors to review the County's investment policy.

Conclusion - Response accepted.

III-H-06 Resource Enhancement and Protection Certification - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

CHEROKEE COUNTY

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2006

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

III-I-06    County Extension Office - The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2006, did not exceed the amount budgeted.

Chapter 554D.114 of the Code of Iowa allows the County to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Extension office retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The Extension office should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The County Extension Office will be encouraged to have check images of both front and back for each cancelled check returned.

Conclusion - Response accepted.